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BRIEFING

Reforms to the global financial architecture

Proposals, conflicts and prospects on the way to the Summit of the Future 2024 and the Financing for Development Conference 2025

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Calls for reforms of the international financial architecture are becoming ever louder. Governments, United Nations (UN) institutions, expert groups and civil society organizations (CSOs) are criticizing the fact that the network of institutions and rules that currently determine global monetary and financial policy and control global financial flows are not up to the current crises. The international financial architecture is "outdated, dysfunctional and unfair", according to UN Secretary-General António Guterres. In 2023, he called for a "new Bretton Woods moment" to adapt the architecture to today's economic realities and power relations.

The challenges are immense: the global investment gap for financing the Sustainable Development Goals (SDGs) alone has increased by over 50 percent as a result of the COVID-19 pandemic and is estimated by the Organisation for Economic Co-operation and Development (OECD) at US$ 3.9 trillion per year. Public debt has exceeded a critical level in many countries and is being massively exacerbated by the rise in interest rates.

Development Finance International warns of "the worst ever global debt crisis". The poorer countries of the global South in particular are falling through the financial safety net and do not have access to sufficient liquidity. Only a fraction of the International Monetary Fund (IMF)-issued Special Drawing Rights (SDRs) are available to them. This is not least due to the fact that their interests are still underrepresented in the decision-making bodies of the international financial institutions, above all the IMF and World Bank. This also applies to international tax cooperation, where African countries in particular are pushing for equal participation under the umbrella of the UN. Finally, there is a considerable need for action in the regulation of financial markets. The inadequate supervision of the non-banking sector in particular is a ticking time bomb for the financial system – and for the global economy.

In view of these challenges, the UN Member States have followed the UN Secretary-General's proposal and made the reform of the international financial architecture a priority topic of the UN Summit of the Future (SotF). It is due to take place at the level of Heads of State and Government in New York on 22 and 23 September 2024. The outcome will be a *Pact for the Future.* Its content will be negotiated in New York in the months leading up to the Summit. The following six topics are expected to be discussed in the negotiations on the global financial architecture:

i. Reforms of the international financial institutions (particularly the World Bank and IMF)

ii. Short-term liquidity and financial safety nets

iii. Long-term financing of sustainable development

iv. Prevention and management of debt crises

v. Reforms of the global tax architecture

vi. Regulation of the global financial markets.

Expectations for the Summit of the Future range between optimism and skepticism. Some see it as a unique opportunity to restore lost trust between states and to demonstrate that international cooperation can effectively tackle current and new challenges. Others are more skeptical for various reasons. For some, the UN does not have the mandate to decide on reforms to the global financial architecture. Others fear that the Summit's numerous negotiation strands will overburden smaller countries and undermine existing intergovernmental processes, such as the Financing for Development (FfD) process. However, if well coordinated, the SotF can also be a milestone on the way to the fourth Financing for Development Conference 2025 in Spain and support it.

This briefing provides information on some of the key issues being discussed in the preparatory process for the Summit in the area of global financial architecture reforms, outlines political lines of conflict and describes civil society expectations. In view of the intensified geopolitical confrontations, the outcome of the Summit is more than uncertain. Despite the difficult context, however, it does offer some chance of reviving multilateral cooperation at the global level and initiating some long overdue reforms in the international system.

Introduction

In his speech at the opening of the High-Level Dialogue on Financing for Development on 20 September 2023, UN Secretary-General António Guterres said:

It is clear that the systemic problems of financing for sustainable development require a systemic solution: reforms to the global financial architecture. That architecture was created at a time when many of today's developing countries were still under colonial rule. It is deeply skewed in favour of the developed world. And it has not kept pace with the growth of the global economy. The paid-in capital of the World Bank as a percentage of global GDP is one fifth what it was in 1960. I reiterate my call for a new Bretton Woods moment when countries come together to agree on a global financial architecture that reflects today's economic realities and power relations.

However, the international financial architecture encompasses much more than the Bretton Woods institutions. For Simon Reid-Henry from Queen Mary University, London (p. 3), it is a "network of actors, institutions, governance regimes, and public transfers that manage, regulate, and transact international financial flows within and across State borders". For him, this includes development finance and the financing of multilateral organizations, the international trading system, the activities of central banks and international financial institutions (IFIs), as well as financial actors such as ratings agencies and private investors that are engaged in international credit and debt flows, currency movements, and trade and investment.

Discussions on reforming the international financial architecture are not a new phenomenon. They have repeatedly flared up in response to crises – from the debt crises of the 1980s and 1990s to the global economic and financial crisis of 2007-2008. Over the past four decades, academics and expert panels such as the Commission on Global Governance (1995) have developed proposals for the creation of a global decision-making and coordinating body for economic and financial issues, for example, under the name Economic Security Council. As early as 1999, Colombian economist José Antonio Ocampo explored areas of consensus and divergence in the disputes over the reform of the international financial architecture. In its report in preparation for the first Financing for Development Conference in Monterrey in 2002, the so-called Zedillo Panel (Chaired by the former President of Mexico, Ernesto Zedillo) proposed inter alia the creation of an International Tax Organization. And in 2009, the Stiglitz Commission (led by American economist Joseph Stiglitz) presented a comprehensive and far-reaching list of measures to regulate and reform the global monetary and financial system.

Over the years, the crises and the resulting calls for reforms have led to numerous initiatives and changes in global economic governance. The G20 was upgraded, the banking system was given stricter capital adequacy rules (Basel III), the Organisation for Economic Co-operation and Development (OECD) attempted to combat harmful tax competition and aggressive tax avoidance by multinational companies with its Base Erosion and Profit Shifting (BEPS) project, and the IMF provided its Member States with additional liquidity in 2021 in response to the COVID-19 crisis by distributing Special Drawing Rights (SDRs) worth US$ 650 billion.

However, these and other measures have not solved the fundamental problems in the global financial architecture. The countries of the global South are still under-represented in the decision-making bodies of economic and financial institutions, there is still a gap of trillions of dollars to finance sustainable development, the risk of worsening debt crises is growing and there are still considerable gaps in the regulation of global financial markets.

All of this has prompted the Secretary-General and UN Member States to put the reform of the international financial architecture on the agenda of the Summit of the Future (SotF), which is planned for September 2024. It is up to the UN Member States to decide which topics will be discussed and which decisions will be taken. The thematic framework has been defined by the report of the High-Level Advisory Board on Effective Multilateralism and an Our Common Agenda Policy Brief by the UN Secretary-General on reforming the international financial architecture. The topics can be grouped into six areas, which are described in more detail below.

1. Reforms of the international financial institutions

The Bretton Woods institutions – the IMF and the World Bank – have been at the centre of the international financial architecture since 1944. In response to criticism of their lack of legitimacy, effectiveness and credibility, they have initiated reform processes over the last two decades, but these have so far only led to moderate changes. Discussions are currently focused on expanding the mandate and thematic focus of the organizations, particularly with regard to the SDGs and the Paris Climate Agreement; increasing capital and lending capacities; reforming quotas and voting rights; and making changes to the selection process for leadership positions.

The current reform process at the World Bank has been underway since 2021. It began with the G20's mandate to review the capitalization of the most important multilateral development banks (MDBs). The aim was to increase **lending capacity** without the need for fresh capital from shareholders. The Independent Review of the Multilateral Development Banks' Capital Adequacy Frameworks (CAF Review), which is now available, provides comprehensive recommendations in this regard. At the end of 2022, the World Bank published an Evolution Roadmap in response. At the Annual Meetings of the IMF and World Bank in Marrakesh in October 2023, the Bank summarized the status of its reform efforts in a report entitled Ending Poverty on a Livable Planet. It also reports on some of the reform steps that have already been implemented. These include the decision to reduce the equity-to-loan ratio from 20 percent to 19 percent. This and other measures are expected to mobilize an additional US$ 50 billion over the next ten years. The World Bank also wants to raise additional non-voting capital in the form of hybrid capital bonds. The German Federal Ministry for Economic Cooperation and Development (BMZ) has announced that Germany will be the first country to provide €305 million for this purpose.

Together with the USA, Germany also campaigned for an expansion of the World Bank's mandate. The World Bank's existing twin goals – poverty reduction and reducing inequality – were to be supplemented by a third goal, namely tackling global challenges, or in other words, providing Global Public Goods (GPGs). In the autumn of 2022, this idea was presented to a broader public in a G7 nonpaper. The World Bank picked up on this by defining a new vision for itself: "A world free of poverty on a livable planet". In its reform report (para. 6), the World Bank lists the following eight areas as priority global challenges: (i) Climate Change Adaptation and Mitigation; (ii) Fragility and Conflict; (iii) Pandemic Prevention and Preparedness; (iv) Energy Access; (v) Food and Nutrition Security; (vi) Water Security and Access; (vii) Enabling Digitalization; and (viii) Protecting Biodiversity and Nature.

Climate change plays a central role in the expansion of the Bank's mandate. However, the five institutions of the World Bank Group were already the most important multilateral funders in this area. According to their own figures, they provided US$ 31.7 billion in climate financing in 2022. The new fund to compensate for climate-related loss and damage (Loss and Damage Fund – LDF) is also to be provisionally based at the World Bank as a Financial Intermediary Fund (FIF) due to pressure from the global North. As the Third World Network reports, the countries of the global South had favoured an independent fund outside the World Bank.

In the current reform process, the area that has the highest priority for the countries of the global South has remained underexposed: The reorganization of **governance structures and voting procedures.** In the Monterrey Consensus 2002, the governments had already identified it as a top priority "to find pragmatic and innovative ways to further enhance the effective participation of developing countries and countries with economies in transition in international dialogues and decision-making processes" (para. 63). This particularly applied to the IMF and World Bank. In the 2030 Agenda (target 10.6), governments recommitted to "ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions". However, little has happened since then.

This prompted the UN Secretary-General to call for the reorganization of the governance structures of the IFIs as measure one in his policy brief on the reform of the international financial architecture. He mentions the following steps in particular (p. 6):

- Update IMF quota formulas to reflect the changing global landscape.
- Reform voting rights and decision-making rules to make them more democratic – for example, through a double majority rule.
- Delink access to resources from quotas, with access instead determined by both income and vulnerabilities (through a multi-vulnerability index or 'beyond gross domestic product (GDP)' indicators).
- Boost the voice and representation of developing countries on boards and improve institutional transparency.
- Strive for gender-balanced representation in all the governance structures of these institutions – particularly at the leadership level.

Regarding the reform of voting rights, the UN Secretary-General points out that voting rights are made up of a combination of quotas and basic votes, the number of which is the same for all countries. However, the basic votes only make up 5.5 percent of the total voting rights at the IMF, which is less than half of what it was when the IMF was founded. The proportion of basic votes should at least be restored to its original level. This recommendation is also contained in the report of the High-Level Advisory Board on Effective Multilateralism (p. 36).

The Bridgetown Initiative to reform the international financial architecture – which was initiated by the Prime Minister of Barbados, Mia Mottley – also calls (in version 2.0) on the shareholders of the IFIs "[to] update the 1945-based institutions to be more inclusive and equitable, including issues of governance, voice, representation, and access to finance."

The countries of the global South have emphasized, on various occasions, the urgent need for reform in the decision-making structures of the IMF and World Bank. For example, as Chair for the G77, Cuba stated this at the High Level Dialogue on Financing for Development at the UN General Assembly in September 2023:

(T)he reform of the current governance system crafted almost a century ago does not reflect the reality of today's multilateral structures. This implies: Proceeding to reform to the governance structure of the IFIs, especially the IMF and the World Bank, the voting system based on economic or financing power is not tenable anymore. (...)

This is unlikely to change in the short term. In November 2023, the IMF Executive Board proposed a 50 percent increase in quotas, which would be allocated to members in proportion to their current quotas. The IMF Board of Governors is due to decide on this increase at the end of the 16th General Review of Quotas on 15 December 2023. A quota realignment is not due to take place until the 17th review of quotas by June 2025.

The Summit of the Future and the fourth Financing for Development Conference 2025 both offer opportunities to influence the decision-making process and to initiate far-reaching reforms. This applies to the reform of the World Bank's governance structures, as well as to the anachronistic selection process for the top posts at the IMF and World Bank.

2. Short-term liquidity and financial safety nets

The IMF plays a central role in providing short-term liquidity and longer-term financial safety nets for countries in financial distress. Special Drawing Rights (SDRs) are an important instrument in this regard. In August 2021, the IMF decided to allocate new SDRs worth US$ 650 billion. However, as they were allocated to the IMF members in proportion to their quotas, the countries of the global South only received just under 42 percent and the most crisis-prone countries in particular received far less. In contrast, Germany received 25.5 billion SDRs (worth €30.8 billion) in line with its IMF quota, which is more than all African countries combined.

In view of this imbalance, both the G7 and the G20 have called for the **rechannelling** of unused SDRs (or equivalent contributions) worth US$ 100 billion. In the Political Declaration of the SDG Summit of September 2023, the UN Member States reiterated this appeal (para. 38 (t)(vii)):

We call for an urgent voluntary re-channeling of Special Drawing Rights to countries most in need, including through multilateral development banks, while respecting relevant legal frameworks and preserving the reserve asset character of Special Drawing Rights. We will explore ways for future allocations of Special Drawing Rights to benefit those countries most in need.

A number of countries, including China, Japan, France and Spain, have responded to the appeal and made SDRs available to the Poverty Reduction and Growth Trust (PRGT) and the IMF's newly created Resilience and Sustainability Trust (RST). The development organization ONE puts the pledges to date at around US$ 80 billion (as of 1 November 2023, excluding the pledges of US$ 21 billion from the USA, which have not yet been approved by the US Congress, and US$ 7.3 billion from Germany, which is *de facto* not a transfer of SDRs).

The RST is intended to have a longer-term focus and specifically finance measures in the areas of climate change and pandemic preparedness. However, critics argue that the IMF is overstepping its mandate and that this should be left to specialized funds and development banks.

Various proposals – including from Barbados with its Bridgetown Initiative and from the Center for Global Development – aim to channel SDRs to multilateral development banks, above all the African Development Bank (AfDB). Among other things, this would have the advantage that the SDRs passed on would then have a multiplier effect, as the AfDB estimates that it could raise three to four times as much capital on the financial markets on the basis of these SDRs.

In any case, the rechannelled SDRs are transferred only in the form of loans that are linked to conditionalities and increase the debt levels of the recipient countries. A critical review of SDRs and their rechannelling published by the non-governmental organization (NGO) WEED therefore concludes that the regular allocation of SDRs by the IMF, in combination with a reform of the allocation formula, would offer clear advantages compared to rechannelling.

In his policy briefing on reforming the international financial architecture, the UN Secretary-General also advocates a "more automated SDR issuance in a countercyclical manner or in response to shocks, with allocations based on need" (Action 10). A new allocation formula should align the issuance of SDRs in such a way that it would specifically benefit those countries that actually need liquidity. The German Council for Sustainable Development also endorsed these proposals in its statement on the reform of the international financial architecture.

At the same time, the UN Secretary-General advocates the explicit decoupling of voting rights, access to IMF loans and the allocation of SDRs. The determination of needs for loans and SDRs should be linked to income and vulnerability (by means of a multidimensional vulnerability index that "goes beyond GDP"). In addition, the IMF should increase its resources, including through the selling of its gold, which is valued at historical costs. According to estimates by the UN Secretary-General, this could generate over US$ 175 billion in realized gains.

On the margins of the IMF-World Bank Annual Meetings in Marrakesh, the G77 called for the creation of an "SDR contingency mechanism" to ensure that funds are spent quickly and automatically in future crises, including by MDBs. An additional SDR allocation should also be approved to facilitate public investment by developing countries to achieve the SDGs.

However, CSOs and academics in particular are calling for the IMF's accountability to be strengthened as a prerequisite for the *de facto* expansion of its role and for it to abandon pro-cyclical conditionalities and one-sided policy prescriptions in its lending and policy advice, which primarily serve to maintain the solvency of states in the interests of foreign creditors. Instead, its programmes should be more closely aligned with the SDGs and human rights standards. This should also lead to an end to the IMF's practice of interest surcharges, which – according to human rights experts such as Juan Pablo Bohoslavsky – jeopardize the realization of the right to development.

3. Long-term financing of sustainable development

The use of SDRs can be one option for long-term development and climate financing, but it is far from sufficient. The global investment gap for financing the SDGs alone is estimated at several trillion US dollars per year. The OECD estimates the gap at US$ 3.9 trillion.

For this reason, the UN Secretary-General presented a proposal for an SDG Stimulus in February 2023. In it, he called for an increase in funding for sustainable development of at least US$ 500 billion per year. In addition to reissuing and redirecting SDRs, the funds are to be raised primarily through a massive increase in long-term development financing through:

» strengthening the MDBs by increasing their capital, better leveraging their funds and channelling SDRs

» improving MDBs' terms of lending, including longer loan maturities, lower interest rates, the use of state-contingent clauses and increased lending in local currency

» strengthening the system of Public Development Banks (PDBs)

» the fulfillment of official development assistance (ODA) commitments ('0.7 percent target'), whereby grants are to be awarded not only on the basis of income but also the vulnerability of the recipient countries to external shocks

» the combination of public and private funding for public objectives with a focus on development impact and country ownership.

Numerous governments have taken up the call for an SDG Stimulus, particularly from the global South. The Bridgetown Initiative endorsed key proposals of the SDG Stimulus. At the SDG Summit, the G77 urged the international community to support the proposal. Ursula von der Leyen, President of the European Commission, also welcomed the SDG Stimulus Plan in her speech at the SDG Summit. However, she emphasized above all the need to mobilize more private investment capital ("unlocking private capital"), including as part of the EU's Global Gateway Initiative, and to expand carbon pricing. In contrast, US Secretary of State Antony Blinken did not mention the SDG Stimulus in his speech at the SDG Summit, but emphasized instead the need for MDB reform and the expansion of infrastructure investment as part of the Partnership for Global Infrastructure and Investment (the G7's response to China's Belt and Road Initiative). In the Political Declaration of the SDG Summit, the UN Member States only agreed to support the UN Secretary-General's proposal in general terms (para. 38(t)(iv)):

We welcome the Secretary-General's efforts to address the SDG financing gap through an SDG stimulus. We will advance the Secretary-General's proposal, in a timely manner through discussions at the United Nations as well as other relevant forums and institutions, to tackle the high cost of debt and rising risks of debt distress, to *enhance support to developing countries and to massively scale up affordable long-term financing for development and expand contingency financing to countries in need.*

In fact, the situation is so precarious for a growing number of highly indebted countries that development financing via new loans is not a sensible option for them, even if they are offered at favourable interest rates. On the contrary, their problem is that servicing their debts to creditors eats up a good portion of their national budgets and therefore leaves no fiscal leeway for financing essential public services, such as in the areas of health and education. The UN Secretary-General's SDG Stimulus package therefore also includes calls to reduce the debt burden by restructuring and cancelling debt (see part 4 below).

For some years now, proponents of the Global Public Investment (GPI) concept have been putting forward much more fundamental proposals for long-term development financing. They advocate a fundamentally new approach to development financing that overcomes the traditional donor-recipient relationship by ensuring that all countries contribute to the financing on the one hand, but also that all stakeholders are equally involved in the decision-making, especially countries of the global South. The focus is on mobilizing public funds to finance global public goods.

The GPI approach advocates a fundamental change in the narrative of development, which is summarized in the following five points:

- **i.** From a narrow focus on reducing poverty to meeting the broader challenges of inequality and sustainability.
- **ii.** From seeing international public money as a temporary last resort to valuing it as a permanent force for good.
- **iii.** From one-directional North-South transfers to a universal effort, with all paying in and all benefitting.
- **iv.** From outdated post-colonial institutions to representative decision-making.
- **v.** From the patronising language of 'foreign aid' to the empowering multilateralism of a common fiscal endeavour.

The GPI approach is supported by renowned economists such as Jayati Gosh, Mariana Mazzucato and Thomas Piketty, but is by no means uncontroversial and has hardly been discussed at intergovernmental level. The process leading up to the Summit of the Future offers an opportunity to discuss its potential and weaknesses in more detail.

4. Prevention and management of debt crises

In recent years, the risk of a new debt crisis has increased dramatically for many countries. The UN Crisis Response Group points out that public debt has more than quadrupled worldwide since 2000 (from US$ 22 to US$ 92 trillion). Public debt in the global South, which accounts for almost 30 percent of the total, has risen disproportionately. According to calculations by the NGOs erlassjahr.de and misereor, 136 of 152 countries surveyed in the global South are now critically indebted. In 40 countries the debt situation is even very critical. Before the COVID-19 pandemic, 37 percent of countries were critically or very critically indebted; this figure has now risen to 64 percent. Forecasts show that the situation will deteriorate further due to the effects of the war in Ukraine and the global turnaround in interest rates.

The situation is made even more complicated by substantial changes in the creditor structure of many countries. While foreign governments, MDBs and the domestic banking sector were the most important lenders in the past, private investors are now often among the largest creditors. According to calculations by the UN Crisis Response Group (Figure 6), they accounted for 62 percent of the total public external debt of countries in the global South in 2021. In Latin America and the Caribbean, the figure was as high as 74 percent.

Among the private creditors, the internationally active pension and investment funds and the large transnational asset managers, above all the US multinational investment company BlackRock, play a special role. They make up the non-bank or shadow banking sector, which is far less regulated than the formal banking sector and has become considerably more important since the global financial crisis of 2007–2008. These private investors generally have higher return expectations than national and international development banks, for example. This poses two problems: first, borrowing from private creditors is more expensive than concessional financing from multilateral and bilateral sources. Second, the increasing complexity of the creditor structure makes it more difficult to complete debt restructuring successfully when it becomes necessary.

Debt indicators around the world have deteriorated to such an extent that Development Finance International is already warning of "the worst ever global debt crisis". What is particularly problematic is that the associated higher debt service payments combined with lower government revenues are considerably restricting governments' financial room for manoeuvre. Urgently needed funds for healthcare, education, climate and social spending is not available. Debt servicing consumes an average of 38 percent of government revenues and 30 percent of expenditures in the countries of the global South; in Africa, this figure is as high as 54 percent of revenues and 40 percent of expenditures.

Current responses to the debt problems have proven to be inadequate, including the now expired G20 Debt Service Suspension Initiative and the establishment of the Common Framework for Debt Management, with which the bilateral creditors of the Paris Club and the G20 agreed for the first time to work together in a coordinated manner to address debt issues.

Further steps, such as the creation of an international debt workout mechanism, as proposed already in the Monterrey Consensus 2002 (para. 60), have not yet been implemented.

In order to prevent a new global debt crisis and to find a lasting solution to the problem of over-indebtedness, a series of short-term, medium-term and long-term steps is required that will lead to a new, fairer debt architecture. The UN Secretary-General lists six points in his policy brief (Action 3 and 4):

i. The international community should fulfill its long-standing commitment to work towards a global consensus on guidelines for the responsibilities of sovereign debtors and creditors. The UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing and the Basic Principles of Sovereign Restructuring Processes can form the basis for this.

ii. Debt management should be improved, including through capacity development, and debt transparency should be increased. To this end, a publicly accessible registry of debt data for developing countries should be created.

iii. Debt sustainability analysis and credit ratings should take into account rapid changes in sovereign bond markets, distinguish between liquidity crises and solvency crises and consider long-term aspects such as climate risks and financing needs for the SDGs.

iv. Creditors should include *force majeure* clauses and state-contingent contractual clauses in loan agreements that provide for automatic debt service relief in the event of external shocks such as disasters or pandemics.

v. A debt workout mechanism should be set up – for example, at an MDB – in order to address slow progress in the Common Framework caused by coordination problems between state and private sector creditors. In this context, the Common Framework should be extended to middle-income countries.

vi. In the longer term, an inclusive and representative sovereign debt authority should be set up to develop and implement a multilateral legal framework for the restructuring of sovereign debt. The UN Secretary-General is thus taking up demands already made in the Stiglitz Commission's 2009 report and in numerous civil society statements – for example, by Latindadd.

Effective steps to prevent and overcome debt crises are of central importance to the countries of the G77. For example, they declared this on the margins of the IMF and World Bank Annual Meetings in October 2023:

It is essential to move towards improved international debt mechanisms with meaningful participation of developing countries, to assist in managing over-indebtedness problems. (...) The new mechanisms should include measures from cancellation to alleviation of debt burdens as appropriate, promoting debt sustainability, finding a balance between the interests of debtors and those of creditors and establishing clear transparency standards for both. That balance could include the strengthening of contractual provisions to minimize economic disruption when debtors experience difficulties, such as in the case of natural disasters and other large economic shocks, when automatic suspension of debt service should be applied. Similarly, it would be important to develop mechanisms to encourage private creditors to participate, along with official creditors, in debt treatment exercises.

For many CSOs, such as the groups working together in the Civil Society FfD Mechanism, the responses of the G20 and the international financial institutions to the debt crisis are completely inadequate. A fair solution cannot be negotiated in fora dominated by the lenders. The UN is the only forum that offers an inclusive and democratic space to find a lasting multilateral solution to the debt crisis. Their appeal:

As civil society, we call on governments to establish a debt workout mechanism i.e. a transparent, binding and multilateral framework for debt crisis resolution, under UN auspices, that addresses unsustainable and illegitimate debt and provides systematic, timely and fair restructuring of sovereign debt, including debt cancellation, in a process convening all creditors.

At the Summit of the Future, governments should take the long overdue step towards such a debt workout mechanism and create the corresponding institutional framework under the umbrella of the UN.

5. Reform of the global tax architecture

The mobilization of domestic public resources is a key prerequisite for sufficient financing of the SDGs. However, it is still hampered by tax evasion and harmful tax competition.

In its 2021 report, the UN High-Level Expert Group on Financial Transparency, Accountability and Integrity (FACTI) estimated the losses caused by illicit financial flows at US$ 500 billion per year. The majority of this is caused by tax avoidance and tax evasion. Recent research by the Tax Justice Network (TJN) confirms this figure. According to TJN, the world loses US$ 472 billion annually through global tax abuse alone. Of this, US$ 301 billion is due to the practice of transnational corporations shifting their profits to tax havens, while the remaining US$ 171 billion is due to wealthy individuals storing their assets in secrecy jurisdictions and thus evading taxation.

In order to remedy these shortcomings, increased international cooperation in the area of taxation is essential. For this reason, the Zedillo Panel had already proposed the creation of an International Tax Organization in its 2001 report. At the Monterrey Conference on Financing for Development in 2002, however, this idea failed to gain consensus. Even less ambitious proposals for an intergovernmental tax commission of the UN or at least for a significant upgrading of the existing UN Committee of Experts on International Cooperation in Tax Matters were not successful in the following two decades.

Instead, the OECD, which is dominated by the western industrialized countries, played the most significant role in tax matters. Under its umbrella, the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) created an international set of rules designed to ensure that large multinational companies pay taxes where they operate and generate their profits. It is based on two pillars:

i. *Pillar 1* requires large multinational companies, particularly in the digital economy, to pay at least some taxes in the countries where they do business and generate their profits – regardless of whether they have a physical presence there.

ii. *Pillar 2* aims to limit downward competition in corporate taxation by introducing a global minimum tax rate of 15 percent.

The two-pillar model was adopted by 140 countries and dependent territories. However, CSOs and governments from the global South in particular are critical that the initiative under the umbrella of the OECD is not 'inclusive', contrary to its claim. They also argue that the interests of the countries of the global South are not sufficiently taken into account. Dereje Alemayehu, Executive Coordinator of the Global Alliance for Tax Justice (GATJ), stated in November 2023:

(S)igning on to OECD means signing away your taxing rights, as the BEPS Framework only reinforces historically-rooted biases in the international tax architecture which benefit the Global North. Such biases leave Global South countries without the revenue sources to finance responses to the multiple crises.

To tackle these problems, the FACTI expert panel had already recommended negotiating a tax convention under the umbrella of the UN that would be binding under international law. In October 2022, Nigeria, on behalf of the Africa Group at the UN, introduced the draft resolution for a UN convention on international tax cooperation in the UN General Assembly. However, during the negotiations on the resolution, it became clear that some

Member States preferred a more cautious approach. The final resolution 77/244 therefore refrained from explicitly referring to a convention, but mentioned the possibility of developing a framework or instrument for international tax cooperation. It called on the UN Secretary-General to prepare a report analyzing the current state of tax cooperation and outlining next steps.

The UN Secretary-General presented his report on Promotion of inclusive and effective international tax cooperation at the United Nations in July 2023. In it, he advocates a fundamental improvement in the international tax architecture and names three options for this:

i. a multilateral convention on taxes

ii. a framework convention on international tax cooperation

iii. a framework for international tax cooperation.

The first two are the more ambitious options. This is because they are legally binding for the countries that ratify them. A multilateral convention would be a rather static legal framework with clearly defined content for improving and regulating international cooperation in the area of taxation. A framework convention, on the other hand, would create an "international system of tax governance", according to the Secretary-General. Similar to the Framework Convention on Climate Change, a Framework Convention on Tax Cooperation could "include institutional provisions for creating a plenary forum for discussion between States that is endowed with the authority to adopt further normative instruments to which States could then become a party" (para. 55). The key advantage of this option would therefore be that it would create a dynamic framework. Various protocols could be added over time, gradually expanding the scope of international tax cooperation. For this reason, this option enjoys the most support from independent tax justice activists, as confirmed, for example, by the media reactions of Tax Justice Network and Eurodad to the UN Secretary-General's report.

In October 2023, Nigeria reintroduced a draft resolution on international tax cooperation to the UN General Assembly on behalf of the Africa Group. In its revised version following initial consultations, it aims "to establish a Member State-led, open-ended ad hoc intergovernmental committee for the purpose of drafting terms of reference for a United Nations framework convention on international tax cooperation" (para. 3). This is due to take place by August 2024 so that the governments can then begin the actual negotiations on the framework convention.

Countries in the global North, including the countries of the European Union, have so far rejected the proposal for a binding framework convention, pointing to the processes already established in the OECD. At best, the EU supports the option of a non-binding framework for international cooperation in the area of taxation, a stance that has met with fierce criticism from the G77 and many CSOs.

The draft resolution was put to a vote in the Second Committee of the UN General Assembly on 22 November 2023 and adopted by a large majority of 125 votes in favour, 48 against and nine abstentions. The negotiating mandate for the Framework Convention should now be in place by the time of the Summit of the Future. The task of the Summit can then only be to endorse the decisions at the highest political level. The decisive factor will be whether the countries of the global North abandon their negative stance. As the Swiss delegate noted, only a consensus-based process can produce a framework convention that can be widely implemented, whereas a process based on a simple majority runs the risk of producing tax rules that cannot be implemented on a broad basis.

6. Regulation of the global financial markets

Reforming the global financial architecture is not just about improving global economic governance and increasing international financial resources for sustainable development. There is also an urgent need to address gaps in the regulation of global financial markets.

Among other things, this requires more effective regulation of the shadow banking sector. After the global financial crisis of 2007-2008, governments created new rules for the financial system. However, they largely confined themselves to the formal banking sector, for which they tightened transparency and capital requirements (Basel III), among other things. However, the stricter rules do not apply to institutional investors, asset managers and other financial market players outside the formal banking sector. They have gained enormously in importance in recent years and are increasingly penetrating the traditional financial business of credit institutions. According to surveys by the Financial Stability Board (FSB), the global financial assets of the non-bank financial intermediation sector reached an all-time high of US$ 239 trillion in 2021 and, with a global market share of 49.2 percent, are now almost as large as the financial assets of banks, central banks and public financial institutions combined. From the FSB's point of view, however, the associated risks cannot not be ignored. Its Chairman Klaas Knot warned back in 2019:

Non-banks play a growing role in the financial system, and their share of the financial system is the largest on record. They are becoming important players in areas where banks traditionally have played dominant roles. Authorities need to remain vigilant in addressing financial stability risks that emerge as a result of non-bank financing through enhanced data collection, improved risk analysis and implementing appropriate policy measures, including the FSB's policy recommendations for addressing structural vulnerabilities from asset management activities.

In its Global Financial Stability Report 2019, the IMF also explicitly called for institutional investors' risks to be managed through increased monitoring and disclosure. There is a need for action with regard to better regulation of investment funds, particularly Exchange Traded Funds (ETFs), and increased transparency of providers such as BlackRock.

More broadly, the monitoring and risk assessment of the activities of global asset managers must be improved substantially. After the last global financial crisis, one slogan was "too big to fail = too big to allow". Companies and banks should not be allowed to become so large that their failure poses a risk to the global economic system. This must also apply to the world's most powerful asset managers, above all BlackRock.

In his policy brief, the UN Secretary-General also called for stronger regulation of financial intermediation in the non-banking sector in accordance with the principle of "same activity, same risk, same rules" (Action 12). However, he believes that the fundamental challenges facing the world cannot be solved just by extending existing regulatory standards to institutions that are not yet covered. He calls for additional measures to prevent the excessive financialization of economies around the world – for example, through tax incentives to promote long-term capital investments and the imposition of transaction taxes. In order to counteract short-termism, the incentive-based remuneration of managers in the banking and corporate sector should be linked to sustainability factors.

To prevent greenwashing by companies, the UN Secretary-General advocates incorporating a common set of sustainability indicators into the reporting obligations of large companies and financial institutions. In addition, market regulations, standards and procedures should be 'modernized' to take into account the SDGs, climate risks and the UN Guiding Principles on Business and Human Rights. A legally binding agreement on business and human rights is currently being negotiated based on these Guiding Principles (Binding Treaty).

Finally, the UN Secretary-General emphasizes that any reform of the international financial architecture should include measures to promote financial integrity. Among other things, it must be ensured that territories with strict banking secrecy do not serve as havens for illicit financial flows and that professional groups that facilitate aggressive tax planning practices, money laundering and tax evasion are held legally accountable.

The High-Level Advisory Board on Effective Multilateralism goes a step further in its report, pointing out that many measures to promote social, developmental and environmental goals at the national level increasingly face legal obstacles at the international level, particularly in the context of trade agreements, economic partnership agreements and bilateral investment treaties. It is therefore not only a question of regulating international financial flows, but also of realigning global regulations with the SDGs. The report states (p. 38):

We must support efforts to re-orient regulatory structures to serve the interests of people and the planet, rather than only safeguard the interests of capital. We call for a special working group, possibly under the Financing for Development wing of the United Nations, to assess the implications of different intergovernmental economic agreements for regulation. While pursuing financial stability and ensuring financing for the SDGs and climate alleviation, we must also consider how negative implications from regulation can be minimized and how legal barriers can be lowered.

Next steps

The reform of the global financial architecture touches on so many areas that it will not be possible to address them all comprehensively at a single conference. This is particularly true for the Summit of the Future, which has a number of other topics on its agenda. The UN Member States agreed, in a resolution on 1 September 2023, that the outcome of the Summit should be a Pact for the Future consisting of an introduction (chapeau) and five chapters on the following topics:

i. Sustainable development and financing for development

ii. International peace and security

iii. Science, technology, innovation and digital cooperation

iv. Youth and future generations

v. Transforming global governance.

The reform of the global financial architecture will be addressed primarily in Chapters 1 and 5.

In October 2023, the President of the UN General Assembly confirmed Antje Leendertse (Permanent Representative of Germany to the UN in New York) and Neville Melvin Gertze (Permanent Representative of Namibia) as co-facilitators for the preparations of the Summit and the Pact for the Future. They will hold informal consultations with Member States and civil society on the topics of the planned pact until the end of 2023. On this basis, they intend to present the zero draft of the Pact for the Future in early 2024. Negotiations on the text will then take place in the months leading up to September 2024.

At the same time, preparations for the 4th International Conference on Financing for Development (FfD) will begin in spring 2024. The UN Member States finally decided in November 2023 that this will be held in Spain in 2025. The FfD conference is also explicitly intended to support the reform of the international financial architecture. An Intergovernmental Preparatory Committee will be set up, which, after a one-day organizational meeting, will hold three sessions in 2024 and two sessions of five days each in 2025. Sessions are due to take place in Ethiopia, Mexico and New York, among other places.

One challenge will be to avoid duplication between the processes and to agree on a division of labour between the FfD process, the Summit of the Future and other fora, such as the ad hoc committee on the planned tax convention. The situation is further complicated by the fact that some of the issues are also dealt with in other fora such as the OECD, the governing bodies of IMF and World Bank, and the G20 (2024 under Brazilian presidency and 2025 under South African presidency). This risks fragmenting the debates and forum shopping, which would primarily benefit the countries with the greatest financial and human capacities. In this complex situation, the Summit of the Future could help to bring the reform debates together. As it takes place at the level of Heads of State and Government, it has the potential to generate the political momentum to overcome blockades, rebuild trust and initiate long overdue reforms in the global financial architecture.

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